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Realty Stock Review

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Ranking Reviews: Rate Dip Makes Homebuilders Attractive

Homebuilders Emerging as Broadly Diversified Financial Companies

Interest rates are heading lower — but investors in homebuilding stocks are yawning. That contradiction means a turnaround is brewing in the homebuilder stocks. As a friend remarks, "When rates go lower, sooner or later someone picks up a hammer and nails."

Why the disparity? Your editor tackled that question in a recent *Wall Street Transcript* panel on housing and we summarize his thoughts below. (Send a self-addressed stamped envelope (9x12-in., 85¢ postage) for a full copy when available.)

Interest rates: The market is astir with talk that the Federal Reserve is lowering the key Federal funds rate and that banks may soon cut the prime rate a notch to10%. Most market rates moved down a full 1% over the past six months and may be poised to drop another half point or so.

So pronounced is the downdraft in money markets that 1990 may be the first year in a decade in which mortgage rates will average in single digits, says George Christie, the savvy construction economist for McGraw-Hill Construction Information Group. Christie predicts a 10% rise in housing starts for 1990 over a depressed 1.4 mil. units in 1989.

No believers. The puzzling part of all this is that the homebuilding stocks are acting as if rates were heading skyward. Why? We hear two contentions:

(1) Housing prices have outrun the consumer's ability to pay. Only 20%-25% or so of the nation's families can buy homes. Average price of merchant built houses stood at $149,200 in the June quarter, up 10.7% the past year and 50% in the past five years. This only proves that statistics can deceive: the median house price is 20% lower at $120,200, indicating that luxurious homes may be inflating the national averages.

The housing inflation view finds strong support from New York City money managers Comstock Partners, who argued in a recent *Barron's* article that house, land and real estate prices in the Northeast had inflated so sharply in recent years that prices can only go down. They contend that house and real estate prices in the Southwestern Oil Patch are more consistent with the future than the Northeast, and indicate that the Oil Patch appears to be far along in its recession.

Up close, the Comstock argument generalizes from one view of the parochial Northeastern realty market, coupled with their view that the economy is top heavy with debt, to a national or global gloom-and-doom forecast for real estate. Our view is that the U.S. has, over the last three years, gone through a rolling and quite diffuse realty recession that hit first in the Southwest, moved to the Southeast, and is now being felt in the Northeast and some parts of California. In other words, the old theory that real estate is a series of local markets and not one national market is on target. If that's true, then investors have no reason to be frightened by the gloomy *Barron's* headlines.

Make no mistake, the nation's homebuilders still have to wrestle with affordability of their homes, but eight of the 14 largest builders reviewed this month sell homes priced below the national average. Most price inflation traces directly to the fact that local governments have loaded development and infrastructure costs on building lots, sending lot prices skyward. In other words, buyers of new homes are paying up-front for community costs that used to be reflected in higher property taxes.

(2) The nation has no large unmet housing demand. Most families are well housed, runs this train of thought, so that even lower rates won't trigger any pent-up demand for housing. But the U.S. has a major shortage of affordable housing, reflected in the fact that only 20%-25% of U.S. families can afford the average new house.

Lower interest rates should stimulate demand because they effectively cut the price of housing for buyers. That price cut is immediately reflected in lower monthly payments. One other thought: Even single-digit interest on a larger loan makes a big monthly bill. Mortgage rates likely have to break 9% to boost sales.

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Private homebuilders alone cannot solve the U.S. shortage of affordable housing but by staying close to entry-level homes, they tap a larger market. Notable is the effort of Hovnanian Enterprises to build affordable homes in urban renewal areas in Newark, NJ and other Eastern urban areas.

And today's sophisticated house buyers are tuned in to money costs. When rates start falling, buyers typically back off and do a lot of shopping. When they sense that rates have reached bottom (and we can't predict when that will happen), they start buying with vigor. With rates now falling, this age-old cycle should repeat itself and set to rest the "unmet demand" argument.

These continuing negative vibes about housing's prospects inspire our selective optimism about the homebuilding stocks for two basic but different reasons:

1. **Interest Rate Plays:** Enough negative economic indicators are showing up that there's an emerging case for credit easing by the Federal Reserve.

September's housing start drop to 1.26 mil. unit annual rate, lowest in seven years, evidences a weakening economy. News such as this tell the Fed to ease credit, which it is doing. Message: expect lower rates ahead.

If so, homebuilding stocks, as perennial interest rate plays, should do very well this year. Already stocks of Centex Corp., Hovnanian, Lennar, and UDC-Universal have rebounded from recent lows and UDC and Lennar are within 15% of their 52-week highs.

2. **Growth Diversification Plays:** Homebuilding stocks have been Wall Street's favorite interest rate trading vehicles for so long that many investors have trouble looking at their fundamental business values. A new accounting rule requiring builders to consolidate their ballooning financial services and industrial business sectors is now spotlighting diversification of some homebuilders, making them authentic growth stocks.

The 14 major builders reviewed this month now control $19.7 bil. assets with $2.42 bil. shareholders' equity. They earned $510 mil. on $10.4 bil. sales in their latest 12 months, as shown by our tally, in million dollars:

Company	Assets	Equity	Rev.	Income
Centex	$1,935M	$397M	$1,935M	$53.9M
Genl. Devel.	1,305	202	662	6.4
Hovnanian	468	127	392	26.5
J.M.Peters	547	123	328	32.7
K&B Home	835	152	950	68.2
Lennar	553	251	353	32.4
NVR, L.P.	2,280	112a	1,288	37.8b
PHM Corp.	4,661	284	1,223	61.3
Ryland Grp.	4,271	191	1,349	36.5
Std.Pacific	878	227	479	102.8b
Toll Bros.	300	81	180	15.4
UDC-Univ.	486	26a	379	47.5b
U.S. Home	897	184	703	2.6
Webb(Del)	249	62a	140	(14.2)
TOTALS	$19,667	$2,421	$10,361	$509.8

a-Equity after pfd.; earnings before pfd. div. b-Pretax for MLPs.

While homebuilding remains the power behind earnings, these numbers don't fully portray the extent of diversification, mainly into mortgage banking and finance, which are naturals for companies generating millions in new mortgages each year. Nearly all multimarket builders have mortgage finance subs and are entering allied lines. Examples:

S&Ls: Four have now bought troubled thrifts as a way to shelter regular earnings. The list includes Centex, NVR, PHM, and Std. Pacific. Right now S&Ls are boosting earnings for some (notably PHM), but we believe it will take some time before the wisdom of S&L diversification becomes clear.

REIT management: Two have sponsored REITs which issue collateralized mortgage obligations (CMOs): NVR and Ryland. CMO REITs have not done well for investors but generate fees to builder-sponsors.

Building materials: Centex is a long-time cement producer which recently added a gypsum line; Ryland and NVR sell panel packages and/or modular homes.

Beyond diversification, the 14 builders show generally good deliveries and backlogs at this stage of the cycle, with latest reported backlog up 1.0%. Exceptions are generally regional: backlog is lower for Florida builders General Development and Lennar; for Northeastern builders Hovnanian and NVR LP; and for national builder PHM. Despite wide concern about Calif. builders, that state's big three — Std. Pacific, J.M. Peters and Kaufman & Broad Home, are all ahead of 1988's pace. Here's our tally of deliveries in the last four quarters and ending backlog:

		Deliveries		Backlog	
Company	Date	DU	% Chg.	DU	% Chg.
Centex	Sept.	7,030	+20%	3,012	+30%
Genl. Devel.	Sept.	1,522	+22	602	-36
Hovnanian	Aug.	3,205	+14	1,881	-11
J.M. Peters	Aug.	1,048	-40	554	+0.4
K&B Home	Aug.	5,171	+ 3	2,566	+30
Lennar	Aug.	4,244	+ 9	2,136	-21
NVR L.P.	Sept.	7,091	-17	2,944	-19
PHM Corp.	Sept.	6,453	- 7	1,792	-26
Ryland Grp.	Sept.	9,113	- 1	4,254	+ 6
Std.Pac. LP	Sept.	1,423	-22	1,036	+28
Toll Bros.	July	691	- 9	385	+ 5
UDC-Univ.LP	Sept.	2,278	+18	1,284	+23
U.S.Home	Sept.	5,747	-11	2,376	- 3
Webb (Del)	Sept.	1,058	+13	1,017	+207
TOTALS		55,881	-1.8%	25,839	+1.0%

We are adding **Del Webb Corp.** to our Portfolio Selector in the Aggressive Recovery sector; it was reviewed Sept. 15. The Long Term Growth group already

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includes Centex, Hovnanian, K&B Home, Lennar, Ryland, and Standard Pacific, all but SPF are reviewed this issue. Please note that price/earnings ratios used in our Ranking reviews are based upon estimated earnings for 1989, rather than normal historical EPS for the latest 12 months.

News Advisories: L&N Mtg. in Freefall; HealthVest Omits Payout

Lomas & Nettleton Mortgage Investors (LOM:NYSE:$6.63), a construction/development lending REIT advised by a unit of reorganizing Lomas Financial Corp. (LFC:NYSE), dived as low as $6 following announcement that it must repay or replace $245 mil. of bank lines by next April 30. LOM was forced out of the commercial paper market starting in June when its credit rating was cut, and by Oct. 12 it had replaced $679 mil. commercial paper with bank lines.

LOM's has refinanced this runoff with $35.9 mil. short-term credit facility due Feb. 1990; $246 mil. bank line due April 30, 1990; and $370 mil. long-term bank lines due Feb. 1 and Oct. 26, 1991. LOM expects normal cash flow to generate a substantial portion of needed funds and meet mortgage commitments; it will seek to sell loan participations, liquidate part of its $95.2 mil. nonearning assets, and curtail new loan production.

This focus on conserving cash signals to us that the dividend could come under pressure. LOM earned and paid 40¢ in the Sept. qtr. (or $1.60 annual rate), but high borrowing costs (spread narrowed to 1.8% in the June qtr.) and lower invested assets (down $95 mil. in 1989) could hurt near-term EPS. And LOM's banks conceivably could cap dividends, as they currently limit payout to $1/sh. by Nationwide Health Properties, whose initial sponsor encountered liquidity ills. While LOM's 69% discount to $21.41/sh. book value is alluring, we'd avoid LOM for now because in a dynamic and unfolding situation, we don't know when bottom will be reached.

HealthVest (HVT:ASE: $5.00), an Austin, Tex. health care leaseback REIT, omitted dividends for the Sept. qtr., even though it earned 17¢, down 66% from the 50¢ of 1988. HVT's former adviser and sponsor, Healthcare International (HII:ASE), encountered severe liquidity problems starting in June; it subsequently received a $9.5 mil. bridge loan from Greenery Rehabilitation, a principal sponsor of Health & Rehabilitation Properties (HRP:NYSE), to provide short-term liquidity. HVT has become self-administered and hired new managers skilled in workouts. It must deal with a default notice from three life insurance company lenders, and stabilize its operations and cash flow, all intimately bound up with HII's restructuring. **Advice**: While the stock seems cheap at 76% below $20.48/sh. book value, we'd stay on the sideline unless you are a very long term investor.

Bay Meadows (CJ:ASE:$17.63), a paired property REIT and operator of the Bay Meadows Racetrack south of San Francisco, deferred its final 1989 dividend because track attendance has fallen about 32% since the Oct. 17 earthquake. CJ's final dividend each year normally is its largest; CJ paid 25¢ in May.

CENTEX CORP. (CTX: NYSE) RANK A

BLDRS RSR 11/89

This Dallas-based nationally diversified homebuilding and construction giant has ridden through the Oil Patch recession with housing deliveries and backlog rising to new highs. Housing generates about two-thirds of pretax income. Operating earnings could top $4/sh. in fiscal 1990 (March), up 50% from a record $2.64/sh. in fiscal 1989. CTX boosted payout 60% to $0.40/yr. early this year. We added CTX to Portfolio Selector in May at $31.88 and continue both our A Rank and Portfolio Selector position.

Gut Issue: Could a soggy California housing market slow CTX's earnings surge? The torrid California housing market has cooled a bit in recent weeks, and profit margins seem to be returning to normal. With only 19.5% of backlog and 18% of closings in the West (mainly Calif.), CTX's exposure seems relatively low. Some pressure on margins is factored into our estimates, but we do not believe lower margins will derail another record housing year in 1990 or alter prospects for 1991.

Housing remains CTX's profit engine. CTX sold 2,000 homes in Florida in its Mar. 1989 fiscal year, making it one of that state's largest builders. In Texas, where CTX has long been a dominant player, CTX should close over 2,000 homes this year and remain a major player. CTX has used its financial strength to add to land positions in Texas for move-up market sites. Nationwide, CTX is building in 167 tracts in 34 metropolitan areas.

Homebuilding gains: CTX housing sales should top $1.0 bil. in FY 1990, up 30%, and pretax profits should come in at $67 mil., up 48%. With the interest rate climate turning favorable, these gains should be extended in 1991. These results include CTX's mortgage banking and diversified operations. The homebuilding group operates as a full-service company that builds homes, finances them via a mortgage subsidiary, and may resell them thru a residential brokerage unit.

CTX should deliver about 7,600 homes this year, up 16% from 6,539 homes in 1989. Average price should rise about 6%-7% to $116,000-$117,000. The West and Southwest regions should post strong double-digit gains, while the East and Southeast (mainly Fla.) will do well to equal 1989 volume. Backlog now stands at a record 3,012 units (table, p. 2).

CTX has a strong land position, and a land development partnership it manages, Centex Development L.P., began FY 1990 by paying $50 mil. for the 1,077 acre Forster Ranch in San Clemente, Cal. The land will be developed for 2,200 lots. The LP units trade in tandem with CTX common. A S&L acquired in 1988 is marginally profitable but has lowered CTX's effective tax rates slightly.

Diversification: CTX has diversified far from its Southwestern base and is a major player in general construction and

construction products, mainly cement and gypsum. General construction revenues and pretax profits are seen as essentially flat, while backlog of uncompleted contracts stands at $1.0 bil., up 4% from 1988. Construction products in Texas and Wyoming are negatively impacted by lower demand and pricing.

Advice: With interest rates likely to decline near-term, we still see CTX as a quality play in the high value creation category. CTX manages volatile businesses to produce fairly consistent EPS, and should do well in the environment we see ahead. (KDC)

CTX: NYSE Rank A March years 14.84 mil. shs.
Price: $34.00 Div. $0.40 Yld. 1.2% P/E Ratio: 8.5X

Year	Op.EPS	Div.	High	Low	Pr./EPS
1986	$2.62	$0.25	$33.50	$20.50	12.8- 7.8
1987	2.47	0.25	40.50	29.00	16.4-11.7
1988	1.50a	0.25	33.88	15.75	22.7-10.1
1989	2.64	0.25	29.63	19.88	11.3- 7.4
1990E	4.00	0.40	41.88	28.00z	

a-Excl.$3.13 acctg. chng. for income taxes in '88. z-To date.

Share data: Institutions own 71.7%; insiders 8.9%. Avg. weekly volume: 210,800 shs.
Finances consolidated 6/89 (Mil.$): Debt: $444.2M; Equity: $397.3M or $26.80/sh. Debt/equity ratio: 1.1-1.
Address: 3333 Lee Pkwy., Box 13000, Dallas, TX 75219. (214) 559-6500.

HOVNANIAN ENTERPRISES (HOV: ASE) RANK B

New Jersey based HOV is a multimarket homebuilder of entry-level homes and townhomes. HOV has diversified into other Eastern seaboard markets and commercial/retail development for its own account, but still depends on the soft N.J. market for the bulk of sales and earnings. HOV has deemphasized and consolidated efforts north of N.J.

The Garden State remains pivotal in HOV's outlook, accounting for about 81% of HOV's 1,074 deliveries in the six months to Aug. 1989 (up 8% overall). We believe an even higher proportion of profits comes from N.J. Shares hold B Rank and Portfolio Selector position.

Gut Issue: Is N.J.'s affordable housing market strong enough to carry HOV through a sustained Northeastern housing slump? N.J. housing cooled dramatically in wake of the Oct. 1987 stock market crash, but HOV has been able to maintain profit momentum in the state because it stresses low-priced, entry level housing and townhomes. HOV is averaging about $104,000/unit for 1989 N.J. deliveries, about 45% below the $190,000 average house price there. But average price of homes in backlog has risen to about $122,000 because of a higher mix of suburban homes.

The demand for affordable housing in this market is presently insatiable. With HOV's very competitive prices and what we think will be a moderately lower interest rate environment around the corner, the only visible constraint to continued earnings strength is availability of land after obtaining government approvals. One fourth of HOV's four-year land bank becomes available this year, a minimum which must be maintained.

Even though HOV has great talent for winning approvals, the difficulty in obtaining approval has forced HOV to look to new markets for growth, but without the land constraints found in N.J. These markets are very difficult to target and maintain with a low price focus. HOV hasn't generated large unit volumes in its other areas, which remain marginal. In Fla., deliveries remain flat at about 15% of deliveries and margins are hurt by stiff competition. Newer projects in New York State and New England (N.H.) are 6% and 0% of volume and not profitable. Majority owned New Fortis Corp. in Charlotte is consolidating to narrow losses.

Inner city projects: HOV is the only mass homebuilder trying to build low-rise, low-priced urban housing profitably. Its first phase of Society Hill in Newark, N.J. sold out 168 units at $86,950 to $102,950 for market-rate units (of 1,003 to 1,444 SF). In Oct. HOV opened for sale the first 220 homes in its Jersey City (N.J.) waterfront townhome project and received over 6,000 applications. HOV anticipates similar strong response for the remaining 940 units to be built over three years.

HOV will open its first project in Penn., north of Phil., later this year and expects to wrest profits from an area normally ceded to Toll Bros. Interstate 78, which is to be completed by the end of 1989, will put the region 1-1/2 hours out of Manhattan and an even shorter drivetime from Philadelphia.

Land values: HOV controls directly or thru options land for about 12,000 DU, or about a four-year supply. HOV figures its average developed lot cost at about $11,000/DU, vs. about $25,000 value when sold (with house), or about $168 mil. or about $8/sh. pretax unrealized gain. Since the bulk of these lots are in zoning-tough N.J., they have obvious scarcity value.

Earnings: HOV sees $1.40-1.55/sh. EPS in FY 1990. We lean toward the lower-end of the scale. Six month EPS came in at $0.32/sh. versus $0.43/sh., a 26% drop. But in the period HOV lost $10 mil. or $0.48/sh., pre-tax, on ventures outside of N.J. In the Nov. quarter HOV will open three new developments totaling 700 units, which should help it to achieve its projection. Backlog at Aug. 1989 of 1,881 DU valued at $230 mil. is down 10.6% from 1988 in unit volume but up 5.5% in dollar value.

Advice: Buy shares, which should do well in a lower interest rate climate. Slow approvals in N.J. could cause quarterly discontinuities but strong land holdings will help long-term EPS. Losses in weaker markets could be a continued drag on earnings. (MJH)

HOV: ASE Rank B Feb. years 20.90 mil. shs.
Price: $9.13 Div. None Yld. 0.0% P/E Ratio: 6.5X

Year	Op.EPS	Div.	High	Low *	Pr./EPS
1986	$0.57	$0.00	$ 6.25	$3.00	11.0- 5.3
1987	0.88	0.00	12.88	6.25	14.6- 7.1
1988	1.24	0.00	19.25	6.75	15.5- 5.4
1989	1.38	0.00	11.18	6.88	8.2- 5.0
1990E	1.40	0.00	12.25	7.63z	

z-To date. * Adjusted for 2-for-1 stock split paid 4/87.

Share data: Institutions own 14.7%; insiders 68.0%. Avg. weekly volume: 92,000 sh.
Finances 8/89 (Mil.$): Debt: $284.1M; Eq.: $126.6M or $6.07/sh. Debt/eq. ratio: 2.2-1.
Address: 10 Hwy. 35, P.O. Box 500, Red Bank, NJ 07701. (201) 747-7800.

KAUFMAN & BROAD HOME CORP. (KBH: NYSE) RANK A

KBH is one of the most profitable U.S. homebuilders with an estimated $70 mil. earnings or about $2.25/sh. this year. KBH is a niche homebuilder of lower priced homes in Calif. and in France, where it also builds commercial buildings. KBH is going its own way after sponsor Broad, Inc. (formerly Kaufman & Broad) spun off its 84% stake in KBH in March 1989 after KBH paid a special $4.50/sh. dividend. Broad Inc. Chrm. Eli Broad is reducing his holdings in KBH. Despite widespread question-marks about California, we now see FY 1989 EPS of about $2.25/sh. with a further gain to about $2.50-plus in 1991. Shares continue at A Rank and in Portfolio Selector.

Gut Issue: Will KBH's focus on entry-level housing in California maintain EPS momentum? California is big for KBH in both volume and margins. (a) Volume: California generates about two-thirds of the 5,600-5,650 unit deliveries we estimate for KBH in 1989. KBH has kept volume rising by staying in lower-priced homes, with house prices averaging $167,800/DU in the nine months through August, well below the state average.

(b) Margins: KBH's overall housing gross profit margin shot up to 27.3% in the August qtr., vs. 21.2% a year ago, and should come in at about 27% for the year. These higher margins reflect strong house price gains as KBH shoots for the higher margined move-up market. KBH's average house price has jumped 21% in 1989 to date. But this move-up market is precisely the market most vulnerable to California's slowdown in used-house sales.

KBH is trying to ease its reliance upon the move-up market by expanding aggressively into California areas where lower-priced housing is strong, mainly Antelope Valley, Central Valley, San Diego, and the Inland Empire (San Bernardino/Riverside). KBH now has nine operating divisions in California, vs. five in 1988.

In France, KBH should deliver about 1,500 homes in 1989, up 7%, reflecting strength in both higher-priced homes and lower priced homes of subsidiary Bati Service. KBH's small Toronto unit is also doing well. In France, KBH also has started building retirement complexes under Residence Liberty name. KBH's expanding commercial construction business, in conjunction with institutional ownership and/or partnership, should book about $110 mil. revenues in 1989, at lower margins. A KBH joint venture just sold a Paris office complex for $600 mil. to investors headed by a Japanese bank; KBH will renovate the complex over four years.

Advice: Despite wide concern that California housing is about to do a swan dive, KBH's strength in entry-level California housing, plus a strong land position and French commercial construction, are major plusses in any downturn. We see the stock as a strong buy to $18, or not over 8 times our 1989 estimate. Exposure to Calif. is manageable and KBH's long history of developing highly competitive housing will reward long-term holders. (KDC)

KBH: NYSE Rank A Nov. years 27.6 mil. shs.
Price: $15.50 Div. $0.30 Yld. 1.9% P/E Ratio: 7.2E

Year	Op.EPS	Div.	High	Low	Pr.X EPS
1985	$0.92	NA	Not public		
1986	1.08	$0.05a	$13.50	$9.00	12.6-8.3
1987	1.32	0.20	21.00	7.75	15.9-5.9
1988	1.76	0.30	12.00	7.75	6.9-4.7
1989E	2.25	0.30	21.75	7.00z	
1990E	2.50	0.30			

a-Initial offering 8/86; Div. for 1Q. z-To date.

Share data: Institutions own 54.5%; insiders 18.1%. Avg. weekly volume: 692,700 sh.
Finances unconsolidated 8/89 (Mil.$): Debt: $445.4M; Equity: $152.2M or $5.52/sh. Debt/equity ratio: 2.9-1.
Address: 11601 Wilshire Blvd., Los Angeles, Cal. 90025. (213) 312-1200.

LENNAR CORP. (LEN: NYSE) RANK A

Florida's largest homebuilder, LEN has used its strong land position to maintain EPS momentum during today's soggy Fla. market. Much of LEN's land strength derives from its acquisition of Florida developer/landholders Development Corp. of America (DCA) in Dec. 1986 and Richmond Homes in Dec. 1988. LEN also builds and holds income properties to hedge against housing's inevitable downturns. We are lowering our Nov. 1989 FY estimate by 5¢ to $2.85/sh., up 3%. Shares hold Rank A and continue in Portfolio Selector because of their 16% discount to historic cost book value.

Gut issue: Could a really deep recession derail LEN? We posed this question in our May 1989 review and it remains the key for investors. LEN is structured to roll with the ups and downs of the homebuilding cycle in two ways, and we think these two items will aid LEN in all but a deep recession:

(a) Debt load peaks at the top of the housing cycle and is paid down as building declines; right now debt is moderately low at 0.6 times equity, including $18 mil. borrowed to acquire Richmond Homes. But when LEN is required to consolidate its mortgage banking subsidiary as of Nov. 1989, total debt will rise to $446.8 mil. or 1.8 times equity. This ratio is still low compared to homebuilders who've already consolidated their financials, illustrating LEN's conservative approach.

(b) Income properties are inventoried for sale to bolster EPS when housing slows. Asset sales, mainly one large land tract, generated 10% of 1988 pretax profit. LEN owns $96 mil. (or 15% of assets) in 620,000 sq. ft. of operating properties at cost, including about 2,300 apartments, offices, neighborhood shopping center, and a 297-room Ramada Inn in Ft. Lauderdale; the Inn may be sold this year at a pretax gain we estimate at about $0.70-$0.80 per sh.

Homebuilding: LEN should deliver about 4,000 homes in its Nov. 1989 year, down about 3% because of a slower market, especially in Florida and Arizona (where LEN is very small). Deliveries should be little changed from 1988, when sales were derived 72% southeast Fla. (Miami to Palm Beach); 18% other Fla.; 5% Ariz.; and 4% joint ventures. Product mix remains about 37% single-family detached; 22% townhomes; and 37% multifa-

mily. LEN holds its major position in entry-level and retirement housing with average price estimated at $86,000 for 1989, up about 5%.

Land for investment of $36.5 mil. is 7% of housing assets. LEN controls via direct ownership, options and joint ventures land and lots for approx. 27,450 homes, or about a 7-year supply. About two-thirds of lots are in Southeast Fla. Major joint ventures include 3,500 DU Doral Park; 6,800 DU Huckleberry; and 3,400 DU Turtle Run.

Advice: LEN's liquidity buffer against down-turns, plus income property and land values, makes the stock a buy at 16% discount to book value. (KDC)

LEN: NYSE Rank A Nov. years 6.68 mil. common; 3.33 mil. Class B (10 votes); total 10.02mil. shs.

Price: $21.00 Div.$0.24a Yld. 1.1% P/E Ratio: 7.4E

Year	Op.EPS	Div.	High	Low	Pr.X EPS
1985	$1.30	$0.20	$15.13	$10.25	11.6- 7.9
1986	1.43	0.20	21.25	11.88	14.9- 8.3
1987	2.50	0.23a	35.38	13.38	14.1- 5.4
1988	2.78	0.24a	21.50	14.75	7.7- 5.3
1989E	2.85	0.24a	23.88	17.25z	8.4-6.1
1990E	3.00				

z-To date. a-Dividends for Class A; Class B voted 4/87.

Share data: Institutions own 54.3%; insiders 3.4% of common; 99.4% of Class B (10 votes/sh.). Chrm. Leonard Miller has 83.5% of combined voting power. Avg. weekly volume of common: 49,000 sh.

Finances unconsolidated Aug. 1989 (Mil.$): Debt: $155.1M; Equity $250.7 mil. or $25.02/sh. Debt/equity ratio: 0.6-1.

Address: 700 N.W. 107th Ave., Miami, Fla. 33172. (305) 559-4000.

PETERS (J.M.) CO., INC. (JMP: ASE) RANK C

JMP, based in simmering Orange County, Calif., has participated in the robust housing market that region has experienced. While the region has cooled from last year's explosive rise, it still holds coals of demand that a drop in interest rates could rekindle. JMP is controlled by a subsidiary of reorganizing Southmark Corp., raising questions about future ownership. Shares are lowered to C Rank to recognize this uncertainty.

Gut Issue: With fiscal 1990 shaping up as an off-year, can lower rates help JMP attain 1989's earnings levels in 1991? JMP is starting to feel the competitive and price pressures of a maturing move-up market. In addition, there is an increasing bind in resale of existing homes. Buyers are starting to tire-kick, sensing lower rates and perhaps lower appreciation levels. We feel this trend is not devastating and with moderately lower interest rates, as we smell, JMP could likely experience a rapid build-up of sales contracts making '91 a year improved over the current year but not up to 1989's level.

JMP's $0.61/sh. six month EPS slid 42% lower than last year. Deliveries in the August quarter and six months were both off 56% to 153 and 295 DU respectively. JMP took new orders for 322 homes in the Aug. quarter vs. 277 a year ago, up 16%. This increase in conjunction with lower deliveries has left backlog virtually unchanged at 554 units.

However, average price increased 26% to $427,437 for a dollar value of backlog of $236.8 mil. Profit margins gained a bit to 21.2% from '89's 19.9%. These positive factors should help JMP finish fiscal 1990 stronger, and if continued, they could also bode well for early '91.

New product. In the Aug. quarter JMP opened eight new communities bringing the total approved home sites to approx. 5,400 lots available for development in 32 projects, and a total of 5,496 lots in the land bank. In the Nov. '89 quarter JMP has so far opened two new projects and two new phases of existing tracts.

Orange County accounts for 48% of volume followed by Los Angeles Cty. at 25%. Other areas are: Riverside and San Bernardino Ctys., 15% and 2%; San Diego Cty., 6%; Ventura Cty., 3%. Included in this group are the 10 developments (mostly second phases) slated to start in 1990 and 1991.

Control block for sale. San Jacinto S&L of Houston has hired an investment banker to sell its 85.8% block of JMP stock. We think control could pass at about $14-$15 per share, which would value JMP at about $200 mil. Southmark Corp., the Dallas realty giant which toppled into Ch. XI in July, owns San Jacinto and until now has tried to hang onto control of JMP, one of its best acquisitions. If JMP were to be bought by a name buyer, JMP's P/E multiple, now the lowest in the group, could expand significantly.

Advice: Conservative investors should avoid until interest rates soften. But with Southmark subsidiary San Jacinto putting its control stock on the market, JMP could benefit from a multiple play, depending on identity of the buyer. Speculative accounts may wish to take that chance. (MJH)

JMP: ASE RANK C Feb. years 14.0 mil. shares

Price: $10.25 Div. None Yield 0% P/E ratio: 5.1E

	Op.EPS	Div.	High	Low	Price/EPS
1987	$0.43a	$0.00	$ No market		NM
1988	1.67	0.00	6.50	2.75	3.9-1.6
1989	2.81	0.00	10.50	5.25	3.7-1.9
1990E	2.00	0.00	14.88	7.75z	7.4-3.9z

a-Co. came public 9/87. z-To date.

Share data: Institutions own 7.2%; Insiders 1.0%; San Jacinto S&L, 85.8%. Avg. weekly volume: 73,300 sh.

Finances 8/89 (Mil. $): Debt:$191.0M Equity: $123.3M or $8.82/sh. Debt/equity ratio 1.54 to 1.

Address: 3501 Jamboree Rd., Ste. 200, Newport Beach, CA 92660. (714) 854-2500.

U.S. HOME CORP. (UH: NYSE) RANK C

UH, a multi-market homebuilder, has returned to profitability by refocusing on its core business in its strongest markets. In 1988, UH sold the bulk of its mortgage servicing portfolio, and its building supply and concrete supply operations. UH sells to first-time, move-up and retirement markets, in about equal proportions in 13 states nationwide. Shares retain C Rank.

Gut Issue: With debt pared, will UH show some real profits in 1990? In the nine months through Sept., UH cut long-term debt by $42.7 mil., saving itself $5.6 mil. or approx. 13¢ per share in annual interest payments. Debt repurchases at discounts added 18¢ to UH's EPS in the nine months through Sept. UH issued 512,000 new shs. to retire some debt and also issued 2.66 mil. shs. to pay interest on two debt issues.

The debt reshuffling leaves UH with only $13.7 mil. debt due in April 1990; after that UH has no debt maturities until Dec. 1993.

This escape from the debt noose lets UH focus on its most lucrative markets and exit, albeit at a continuing EPS drag, from marginal ones. Also UH is bleeding by $0.02/share per qtr. until it sells or writes off its three idled manufactured housing plants. Even with these drags, UH's overall EPS should come in around $0.15 per share in 1990.

Operating results. Revenues from sales of single family housing fell 1% in the nine months to Sept. Average sale price increased 10% to $118,300, somewhat offsetting a 9% volume decline. The higher sales price reflects a shift toward move-up buyers and activity in stronger markets such as California and Florida. Sept. nine month overall EPS finished down 67% at 3¢ per share from the 9¢ per share earned in 1988. The earnings decline is primarily due to losses of 7¢ from continuing operations and 8¢ from discontinued operations.

Although UH is near viable housing operations, it still must weather a down housing cycle that should be softened somewhat by a lazy decrease in interest rates. If liquidty worsens, UH has approx. $75 mil. (net of valuation reserves) in land between Houston and Denver it can sell.

In nine months to Sept., deliveries fell 9% to 4,135 homes and were divided 38% Fla.; 25% Southwest; 15% Calif.; 11% mid-Atlantic; 6% Minn.; and 5% Southeast. New orders for the nine months fell 8% and backlog fell 3%, to 4,657 and 2,376 DU respectively. Most declines result from de-emphasis of marginal markets (UH exited Albuquerque, Atlanta, Charlotte and Phoenix this year) and a general real estate slowdown in other markets.

Advice: Shares represent a speculative longer-term turnaround. It appears UH has stepped back from the brink of disaster and has a bit of breathing room. UH continues to pare unprofitable markets and high cost debt. Lower rates could improve the outlook. (MJH)

UH: NYSE RANK C Dec. yrs. 44.0 mil. shares
Price: $1.25 Div. None Yield 0% Price/EPS: 25E

	Op.EPS	Div.	High	Low	P/E range
1985	$0.26	$0.00	$8.88	$5.00	34.1 - 19.2
1986	d2.05	0.00	9.25	4.13	NC
1987	d1.24	0.00	8.25	1.63	NC
1988	0.13	0.00	3.38	2.50	5.2- 3.9
1989E	0.01	0.00	2.00	1.00z	NC
1990E	0.15				

z-To date.

Share data: Institutions own 11.9%; insiders 1.5%. Avg. weekly volume: 442,000 sh.
Finances: 9/89 (Mil.$): Debt: $567.5M ($392.3M corp., $175.2M financial); Equity: $184.1M equals $4.18/share. Debt/equity ratio: 3.08 to 1.
Address: 1800 West Loop South, Houston, TX 77027. Phone (713) 877-2311.

NVR, L.P. (NVR: ASE) RANK C

NVR (formerly NVRyan) L.P. is the national multimarket homebuilder combining a relatively new Washington, D.C. builder with former giant Ryan Homes, acquired by tender and merger in 1986-87. NVR now is evolving into a diversified building/finance company with separate profit centers in land, homebuilding, building materials, and financial services/banking.

Homebuilding remains the driving force behind profits, and NVR is moving into higher-margined upscale homes, which recently have encountered buyer "sticker shock", especially around Washington. NVR recently acquired a Calif. homebuilder in its first move west of the Mississippi. We are reducing Rank to C because we expect flat profit and market performance near-term.

Gut Issue: How badly could a flat housing performance hurt leveraged NVR's earnings? NVR is focusing on improving profit margins and de-emphasizing unit volume. This strategy is already reflected in weak housing unit volume, with latest 12 months closings down 16.5% to 7,091 DU and unit backlog down 19% at 2,944 homes. But dollar value of backlog is down only 4.6% to $536 mil. and average price of backlogged home is up 18% to $182,000.

NVR is trying to break away from its image as strictly a homebuilder and is now organized into four diversified segments for profit growth. This "new look" NVR demands a closer look at its integrated parts:

Homebuilding and land development: NVR now views homebuilding and land development as separate profit centers, but results are combined in public reports. Housing and land should be unchanged at $1.14 bil. for NVR in 1989, or about 85% of our estimated $1.33 bil. combined revenues.

NVR finds homebuilding soft and tending to recession in all markets and price ranges. It has pulled out of building in a number of locations, including Jacksonville, Raleigh/Durham, West Palm Beach, and Columbus, O.

As a result, we see unit deliveries of about 6,650 in 1989, down 22% in unit count. But because selling prices are rising steeply, to about $171,000 for the year, NVR total housing volume should match its 1988 record. Better, gross profit margins should widen by about 1.0-1.5% to about 17.5-18.0%. This adds $11.5 to $17 mil. to gross profit.

In the Wash./Baltimore area, which accounts for nearly 60% of housing sales, NVR attributes softness to economic uncertainty and buyer resistance to higher selling prices. NVR is moving slowly in Calif., entered with the Oct. 1988 acquisition (for $7 mil.) of H.R. Remington Props., which builds in the San Francisco and Orange County (Los Angeles) areas.

Financial services/banking: Mortgage banking fees should rise about 65% to near $40 mil. for 1989, again generating good margins. Other financial services, including $400 mil. McLean Federal S&L (renamed NVR Federal Savings Bank), are generating solid net interest income, with the total financial group expected to double gross profit to about $46-$47 mil. NVR's savings bank purchase in Dec. 1988 (for $16 mil.) could turn up a real winner: NVR got $36 mil. cash aid from Federal S&L Insurance Corp. plus FSLIC capital and yield maintenance guarantees that could total $50 to $70 mil.

Leverage: NVR remains highly leveraged, result of heavy borrowing in mid-1987 to finance the Ryan acquisition. NVR has cut debt but remains obligated for $779 mil. non-finance debt, or 5.7 times $137.5 mil. equity including $23.2 mil. preferred. So far NVR has been able to sustain EPS but any serious downturn in sales or gross profits could put NVR in the debt noose.

Advice: We continue to urge caution until clearly lower interest rates and a stronger housing climate reduce risk. We see 1989 EPS as being flat and don't look for an inspiring first half for NVR. As a master limited partnership, NVR pays no Federal income tax, hence its higher dividend yield of about 13%. (KDC)

NVR: ASE Rank C Dec. yrs. 25.39 mil. units
Price: $6.00 Div. $0.80 Yld. 13.3% P/E Ratio: 4.6E

Yr.	Oper. EPS	Div.	High	Low	Price/EPS
1985	$0.38	$0.00	NM	NM	None
1986	0.75	0.37	$10.00	$4.50	13.3-6.0
1987	0.76	0.56	21.63	3.63	28.5-4.8
1988	1.25	0.52	7.38	3.88	5.9-3.1
1989E	1.30	0.80	8.25	5.63z	6.3-4.3

NM-No market. z-To date.

Share data: Institutions own 1.7%; insiders 67.3%. Avg. weekly volume: 174,000 sh.
Finances 6/89 (Mil.$): Debt: $778.9M; Pfd.: $23.2M; Common equity: $114.3M ($4.50/un.). Debt/equity ratio: 5.7-1.
Address: 7601 Lewinsville Rd., Suite 300, McLean, Vir. 22102. (703) 761-2000.

STDPAC 11/10 89 Bear

STANDARD-PACIFIC, L.P. (SPF: NYSE) RANK A

SPF is a MLP that builds single family move-up homes across booming Calif. Subsidiary, Standard Pacific Savings, F.A., offers financing to SPF homebuyers and subsidiary Panel Concepts manufactures office furniture and paneling. SPF is headed for a record year in 1989 as margins expand. Questions about California's housing signal slower growth in 1990. Shares hold A Rank and remain in Portfolio Selector.

Gut Issue: Could a finale to the California housing party end SPF's good times? SPF's gross margins have soared along with house prices in its California markets — mainly hot Orange County and the Bay Area. Now the burst in house prices seems to be moderating with SPF's average selling price falling 11% in the Sept. quarter to $272,000, vs. $305,900 in the June period.

But the fall reflects less a softening market than SPF's switch to lower-priced attached homes in both Orange County and Dublin in the Bay Area. No price cutting was involved in SPF's sales and the cancellation rate has remained normal. The resale market is a bit slower, meaning that prospective SPF buyers take 60-90 days to sell existing homes instead of 30 days or less at the height of California's housing frenzy.

In this "normal" market, land supply is crucial and land supply is SPF's strong suit. SPF entered 1989 with 6,600 buildable lots, nearly a three year supply at its current development pace. California's constraints on land approvals seem to assure that while demand may slow, wild overbuilding isn't in the cards. SPF's margins have held up well so far and we believe its financial strength and ability to inventory land will let it maintain steady, albeit slower, EPS growth.

Housing operations. We expect SPF to deliver about 1,600 homes this year, down about 9% from 1,756 homes in 1988. But another big rise in selling prices, up about 18% to $285,000, and much wider margins should generate record 1989 profits. Unlike many California builders, SPF's backlog rose to 1,036 homes in the Sept. qtr., 28% above last year. We see EPS rising a strong 36% to $3.75/unit in 1989. Both the interest rate and market dynamics we see for 1990 indicate a further gain to about $4.25/un.

Advice: Buy/hold shares for longer-term growth and cashing in on SPF's superior land position. Reports of the death of housing in California appear overblown, and while we don't want to minimize the slowdown, neither are we willing to kick out a good stock like SPF just because of some headlines. Because SPF is a master limited partnership (MLP), its $1.80 payout provides an 11% yield that is mostly tax-protected for now. But units are suitable only for individuals, not for institutions. (KDC)

SPF: NYSE RANK A Dec. yrs. 27.06 mil. units
Price: $15.50 Div. $1.80 Yield 11.6% Price/EPS: 4.1E

	Op.EPS	Div.	High	Low	P/E Range
1985	$0.84a	$0.27	$16.38	$8.00	19.5- 9.5%
1986	1.11a	0.40	16.88	6.75	15.2- 6.1
1987	1.62	2.40b	17.38	6.75	10.7- 4.2
1988	2.75	1.20	12.38	8.13	4.5- 3.0
1989E	3.75	2.10b	19.88	11.88z	5.3- 3.2z
1990E	4.25	2.00			

a-Fully taxed EPS in 1985-86, and no taxes thereafter after conversion to MLP format 12/86. b-Special $1.50 distribution paid 4/87; Incl. $0.75/sh. undistributed 1988 income as per L.P. policy. Prices adjusted for 2-for-1 stock split paid 5/87. z-To date.

Share data: Institutions own 19.4%; insiders 16.0%. Avg. weekly volume: 536,000 sh.
Finances. 6/89 (Mil.$): Debt: $618.0M ($368.5 Corp. $249.5 financial) Equity.: $227.1M or $8.39/ un. Debt/eq. ratio: 2.72 to 1.
Address: 1565 W. MacArthur Blvd., Costa Mesa, Cal. 92626. (714) 546-1161.